

Message Text

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SUBJ: SRI LANKA CENTRAL BANK GOVERNOR SPEECH ON ECONOMIC
POLICY

REF: COLOMBO 922

1. SUMMARY: AT ANNUAL CEYLON CHAMBER OF COMMERCE
MEETING, CENTRAL BANK GOVERNOR HERBERT TENNEKON MADE
STRONG SPEECH FAVORING CAPITAL FORMATION AND INVESTMENT
AS ESSENTIAL TO ATTACKING SRI LANKA'S PROBLEMS OF
UNEMPLOYMENT, UNDER UTILIZED PRODUCTIVE CAPACITY AND CHRONIC
BALANCE OF PAYMENTS DEFICIT. IN EFFECT HE URGED
GOVERNMENT OF SRI LANKA (GSL) TO CLARIFY FURTHER
STATUS OF PRIVATE SECTOR, TO ENCOURAGE FOREIGN
INVESTMENT THROUGH PASSAGE OF GUARANTEE LAW (WHICH IS STILL
PENDING CABINET ACTION) TO REPEAL OR MODIFY BLANKET BUSINESS
ACQUISITION ACT AND TO ASSURE PRODUCTIVE MANAGEMENT FRO
TEA, RUBBER AND COCONUT ESTATES RECENTLY NATIONALIZED.
SPEECH IS MOST SIGNIFICANT SENIOR LEVEL STATEMENT CONCERNING
GSL ECONOMIC POLICY SINCE GSL FINANCE MINISTER BANDARANAIKE
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PRESENTED 1976 BUDGET IN EARLY NOVEMBER, 1975. END SUMMARY.

2. AT APRIL 29 ANNUAL GENERAL MEETING OF PRESTIGIOUS CEYLON CHAMBER OF COMMERCE, HIGHLY RESPECTED CENTRAL BANK GOVERNOR TENNEKON GAVE LENGTHY ADDRESS ON STATE OF SRI LANKA'S ECONOMY AND URGED POLICY MEASURES DESIGNED TO ATTACK ECONOMY'S CONTINUING PROFOUND PROBLEMS OF INADEQUATE INVESTMENT, EMPLOYMENT AND PRODUCTION.

3. AFTER REVIEW OF GLOBAL ECONOMIC SITUATION LAST TWO YEARS AND SRI LANKA'S DIFFICULT ECONOMIC EXPERIENCE AS INCREASINGLY MOST SERIOUSLY AFFECTED COUNTRY, TENNEKON POINTED OUT THAT COUNTRY'S ECONOMIC GROWTH AT AVERAGE OF ABOUT 2.8 PERCENT ANNUALLY HAD NOT BEEN SATISFACTORY DURING LAST FIVE YEARS OR PERIOD OF PRESENT GOVERNMENT (MARXIST LSSP PARTY WAS MEMBER OF COALITION UNTIL EXPELLED LAST SEPTEMBER). AMONG ECONOMIC POLICY REASONS HE MENTIONED TO EXPLAIN THIS POOR PERFORMANCE WERE THE PENALIZING EFFECT OF DUAL EXCHANGE RATE ON PLANTATION EXPORTS, THE NEGATIVE IMPACT ON DOMESTIC BUSINESS CONFIDENCE OF LAND AND THE BUSINESS ACQUISITION ACT AND THE GENERALLY NEGATIVE CLIMATE FOR FOREIGN INVESTMENT.

4. HIS MAJOR POINT WAS THAT KEY TO DEVELOPMENT LIES IN "LEVEL OF INVESTMENT AND CAPITAL FORMATION." HE DID SAY THAT THERE WAS SOME PROGRESS IN 1975 WHEN PUBLIC ENTERPRISES AND CORPORATIONS SHOWED INCREASE OF 36 PERCENT IN GROSS FIXED CAPITAL FORMATION WHILE FIGURE FOR PRIVATE SECTOR WAS 20 PERCENT. HE SAID THAT INDUSTRIAL SECTOR WAS GAINING MOMENTUM BUT THAT MUCH REMAINED TO BE DONE. HE STRONGLY URGED FURTHER GSL ACTION TO CLARIFY POSITION OF AND ENCOURAGE DOMESTIC PRIVATE SECTOR. HE SAID THAT GSL HAD MOVED IN THIS DIRECTION BY PROPOSING ENACTMENT OF INVESTMENT GUARANTEE LAW. HE ALSO MENTIONED AND CAME CLOSE TO ENDORSING THE CHAMBER'S REPEATED REPRESENTATIONS FOR REPEAL OF 1971 BUSINESS ACQUISITIONS ACT WHICH GIVES GSL NEAR BLANKET AUTHORITY TO TAKE OVER PRIVATE ENTERPRISES WITHOUT WARNING AND WITHOUT APPEAL. HE ALSO MENTIONED RECENT DISCUSSIONS ABOUT MULTINATIONAL CORPORATIONS AND SAID THAT "WITHIN CERTAIN GUIDELINE AND CODES OF BEHAVIOR--THEY WILL BE USEFUL TOOLS FOR DEVELOPMENT AND FOR TRANSFER OF MUCH NEEDED CAPITAL AND TECHNOLOGY."

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5. SECOND MAJOR POINT CONCERNED KEY PLANTATION EXPORT SECTOR OF SRI LANKA'S ECONOMY WHICH IS NOW IN CRUCIAL TRANSITION STAGE FOLLOWING NEAR TOTAL NATIONALIZATION DURING LAST TWO YEARS. TENNEKON URGED THAT GSL DO ALL POSSIBLE TO ASSURE THAT EFFICIENT AND EFFECTIVE MANAGEMENT BE RETAINED ON ESTATES AND SUPPORTING ENTERPRISES TO SUSTAIN THEIR FOREIGN EXCHANGE EARNING POWER.

6. IN CLOSING TENNEKON SAID THAT MAJOR PROBLEM FOR SRI LANKA NOW WAS EXCESS OF POLITICAL DISCUSSION LARGELY DEVOTED TO INEFFECTIVE RADICAL PROPOSALS TOUTED AS COMPLETE SOLUTIONS TO SRI LANKA'S ECONOMIC ILLS. CONTINUING WITH LATTER METAPHOR HE MENTIONED NUMEROUS NOSTRUMS POLITICIANS HAVE PROPOSED INCLUDING "NEW NATIONALISM TONIC", "PUBLIC OWNERSHIP BALM" AND "GOVERNMENT OWNERSHIP ELIXIR, REPEAT DOSE UNTIL EXHAUSTED." IN THIS CONTEXT HE SAID "WE SUFFER FROM A VERITABLE PLAGUE OF POLITICS" AND THAT ONE OF THE MOST ESSENTIAL REQUIREMENTS NOW IS FOR "OBJECTIVE THINKING."

7. COMMENT: SUMMARIES OF TENNEKON'S SPEECH WERE FRONT PAGED IN DAILIES. ALTHOUGH WE DO NOT KNOW WHETHER TENNEKON'S SPEECH WAS CLEARED ELSEWHERE IN GSL, IT IS STRONG AND SPECIFIC ENDORSEMENT OF GENERAL POSITIVE TREND IN GSL ECONOMIC POLICY SINCE SEPTEMBER 1975 EXPULSION OF LSSP. PERKINS

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